

10648887      SUPPLIER NUMBER: 53229703      (THIS IS THE FULL TEXT)  
**The new \*\*face\*\* of \*\*artificial\*\* \*\*intelligence\*\*.** (Company Business and  
Marketing)  
Lyons, Daniel  
\*\*Forbes\*\*, 172(1)  
Nov 30, 1998  
ISSN: 0015-6914      LANGUAGE: English      RECORD TYPE: Fulltext; Abstract  
WORD COUNT: 1470      LINE COUNT: 00114

ABSTRACT: PcOrder.com is now using electronic commerce as a new means of marketing their computers. The technology allows customers to chose the features they want, from speed to hard drive space. PcORder.com's web site allows customers to view a database of over 600,000 computer parts from over 1,000 manufacturers to see stock availability and price. In addition, software from pcOrder allows manufacturers to set up Web sites and take direct orders from customers. Thsi new service will add more competition to the successful e-commerce practice of Dell Computer. It is predicted that the business-to-business electronic commerce will expand from an \$8 billion in 1997 to \$327 billion in 2002.

TEXT:

IT'S 100 DEGREES AT NIGHT in downtown Austin, Tex., but 29-year-old Christina Jones doesn't mind the heat. She's throwing a bash for her 190 employees at a joint called the Speakeasy in an evening full of swing music. They're celebrating a deal reported to be worth \$30 million or so that pcOrder.com, Inc. just closed with Ingram Micro Inc., the world's largest computer distributor.

Across town, Michael Dell is not trembling in his shoes, but he is certainly noticing. Jones is trying to revolutionize the way personal computers are sold over the Internet, and undo the extraordinary advantage Dell Computer Corp. gains by selling direct to the customer. When you buy from Dell, you pick up the phone or go to the Web site, order what you want, sit back and wait a week or so for the boxes to arrive.

Compaq Computer Corp., IBM and Hewlett-Packard Co. have lost ground to Dell because they're saddled with the traditional way of moving merchandise through distributors and dealers. Inserting a middleman increases costs and often leads to unbalanced inventories.

PC makers are not about to drop their distributors and resellers: They still move most of the goods. But pcOrder has found a valuable role to fill--making the distribution channel more efficient.

Its technology lets corporate customers go to the Web and choose the features they want--from the speed of a microchip to the hard-disk space--with just a few clicks of the mouse. PC dealers, using Jones' database, can instantly scan 600,000 different parts from 1,000 manufacturers and find out what's in stock and at what price. They then electronically pass the order on to the distributor, which forwards it to the PC maker.

This doesn't cut out the middleman, but it makes him more efficient. Computer manufacturers can also use pcOrder's software to set up their own Web sites and take orders directly from customers--as Dell does.

PcOrder's software is a practical outgrowth of artificial intelligence (AI) that allows its software to "recognize" which of the thousands of computer parts will work together best. Jones herself is part of a new generation of hustling entrepreneurs who are finally making good on the pie-in-the-sky promises of AI (see following story). Instead of trying to solve the mysteries of the human mind, she and her peers--many of them proteges of Stanford University professor and AI pioneer Edward Feigenbaum--are searching for practical answers to specific problems.

Compaq, HP and IBM sold nearly \$70 billion worth of PCs, servers and laptops in 1997, almost all of it through distributors and dealers. But they are hobbled in competing with Dell, which keeps gaining ground on them, because Dell has a faster, cheaper and more efficient distribution system, dealing directly with customers and using electronic commerce.

The stakes are enormous. The market for business-to-business electronic commerce, including but not exclusive to computers, will grow from \$8 billion in 1997 to \$327 billion in 2002, according to Forrester

Research.

Jones got the idea for pcOrder in 1994. She had cofounded Austin-based Trilogy Software, Inc. in 1989, now an estimated \$100 million-plus company, with fellow Stanford student Joseph Liemandt and three other young partners (FORBES, June 3, 1996). Trilogy was producing software for businesses that build products with lots of parts and lots of different ways of configuring them--Unix workstations for Hewlett-Packard, 777s for the Boeing Co. Jones figured the technology would work just as well for slapping together PC systems. So she sold back all her shares in Trilogy to Liemandt in exchange for access to his technology and some financial support for her new company.

Compaq, HP and IBM have licensed pcOrder software. So have the three largest U.S. PC distributors, Ingram Micro, Tech Data Corp. and Pinacor, Inc. Last year pcOrder lost \$1.1 million on revenues of \$10.6 million; this year revenues should double while the losses continue. But never mind. "The grand vision is to have every single computer bought using pcOrder technology," Jones says.

That's going to be next to impossible because some companies just won't jump on board. But even if she gets most big players, she'll be able to gather data about buying habits and trends--and use the information to forecast demand. Stuff worth a gold mine to PC makers and distributors. "We could become the A.C. Nielsen of the computer industry," says Ross Cooley, the 57-year-old computer industry dealmaker whom Jones hired away from Compaq two years ago as chairman and chief executive of pcOrder.

Jones' original business plan was to build her own Web site and act as a sales agent for computer makers, taking a commission for each sale. Distributors were horrified; they saw pcOrder as a competitor. When the distributors yell, the PC makers pay attention.

While pitching the idea to Compaq, Jones ran into Cooley, who was then running Compaq's North American operations. "I just sat there with lightbulbs going off," Cooley recalls. "I realized that if you just changed things a little bit, there could be this tremendous potential for PC makers to level the playing field and compete against the direct guys."

Cooley persuaded Jones to change the business plan. Instead of setting up her own electronic storefront, pcOrder would provide storefronts for individual manufacturers and dealers.

Jones persuaded Cooley to come on board in exchange for a 7% stake in pcOrder. After 18 years at IBM and 14 years at Compaq, retirement was looming for Cooley. He welcomed the new challenge.

They make an impressive pair: he, the smooth industry veteran who can charm open the doors of boardrooms; she, the demure-seeming entrepreneur with cover-girl looks who packs an intellectual wallop.

One of their first joint sales calls, Cooley recalls, was to the chief executive of a leading computer manufacturer with sales in the tens of billions. The exec liked the software, but he didn't want to buy a license--he wanted to acquire the whole company. How much--he figured--could it take to buy a software company with sales of a few million and no earnings?

When Jones politely said the company wasn't for sale, the chief executive leaned back in his chair and explained to young Miss Jones that everything in the whole wide world was for sale at the right price. In that case, said Jones, she would accept \$1 billion. The exec looked Jones in the eye. Jones stared right back.

She wasn't bluffing. "You know," the chief said at last, "you are very effective."

She has to be. Despite its momentum, pcOrder is hardly a guaranteed winner. While the major PC-makers and distributors are on board, only about 5,500 salespeople actually use the software; approximately 45,000 remain to be convinced that ordering PCs over the Web beats doing business over the phones and faxes.

It's a hard sell. PcOrder recently spent several hundred thousand dollars on a direct-mail marketing campaign that flopped. "We spent four times more per lead than the cost of the software itself," Jones complains.

Okay, back to the drawing board. Now pcOrder is hiring an army of young sales reps, most fresh from college, to call on dealers directly. They're led by Scott Kamieneski, 37, a former top salesman at SAP America, Inc. who recently joined pcOrder as vice president of sales.

The software also needs a little tinkering. In a recent marketing

meeting pcOrder staffers covered the walls with Post-it Notes describing the results of a customer survey. The software is too slow, users complained. And it doesn't let them send quotes via E-mail. Some pcOrder customers still prefer printed catalogs from PC makers. Perhaps with good reason, since pcOrder has had trouble with data reliability. Jones insists that problem has been fixed.

PcOrder has filed to go public sometime late this year or in early 1999, hoping to raise \$35 million. News of that big deal with Ingram Micro will help move the issue.

PcOrder has one giant thing going for it: Unless Dell's competitors can make their distribution more efficient, there will be no stopping the juggernaut from Austin. "Every time the quarterly numbers come out and Dell outperforms everybody else, the urgency goes up another notch," says Jones.

Copyright Forbes Inc. 1998

COPYRIGHT 1998 Forbes Inc.

COMPANY NAMES: pcOrder.com--Marketing

INDUSTRY CODES/NAMES: BUS Business, General; BUSN Any type of business

DESCRIPTORS: Computer industry--Marketing

GEOGRAPHIC CODES/NAMES: 1USA United States

PRODUCT/INDUSTRY NAMES: 3573000 (Computers & Peripherals)

SIC CODES: 3571 Electronic computers

FILE SEGMENT: MI File 47